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NEA/ELA; NSC FOR MARCHESE

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [SY](#)

SUBJECT: SYRIA'S BLACK MARKET FOR CURRENCY UNLIKELY TO
DISAPPEAR SOON

REF: A. 05 DAMASCUS 04977
[1](#)B. 06 DAMASCUS 01370
[1](#)C. DAMASCUS 00127

CLASSIFIED BY:
CHARGE D'AFFAIRES MICHAEL CORBIN, REASONS 1.4 B/D

[1](#)1. (C) SUMMARY: THE SARG IS TAKING THE FIRST STEPS TO IMPLEMENT A YEAR-OLD LAW ON MONEY CHANGERS THAT IS INTENDED TO PROTECT THE SYRIAN POUND FROM FLUCTUATION, AND REGULATE THE BLACK MARKET AND ALTERNATIVE REMITTANCE SYSTEMS. WHILE A MAJORITY OF MONEY CHANGE OPERATORS ARE NOW SEEKING LICENSES, IT IS TOO EARLY TO SAY HOW SIGNIFICANT AN EFFECT THE MOVE WILL HAVE ON THE ROBUST BLACK MARKET. NEVERTHELESS, WE ASSESS THE START OF IMPLEMENTATION AS ONLY A MODEST STEP TOWARD ADDRESSING THE USG AND INTERNATIONAL COMMUNITY'S SERIOUS CONCERNS OVER THE VULNERABILITY OF THE SYRIAN MONETARY SYSTEM TO MONEY LAUNDERERS OR TERRORIST FINANCING. END SUMMARY.

[1](#)2. (U) THE SARG RESTRICTED FOREIGN CURRENCY EXCHANGE OVER THE PAST FORTY YEARS AS PART OF ITS ADHERENCE TO A SOCIALIST ECONOMIC MODEL AND ITS EFFORTS TO CONTROL THE COUNTRY'S PURSE STRINGS. AS A RESULT, SYRIA HAS LONG HAD A ROBUST BLACK MARKET FOR CURRENCY EXCHANGE WHOSE FLUCTUATIONS HAVE DRIVEN THE OFFICIAL RATE UP AND DOWN. IRONICALLY, THE BLACK MARKET HAS ALSO HELPED FACILITATE THE ILLEGAL TRANSFER OF FUNDS FOR REGIME CRONIES ENGAGED IN ILLICIT ENTERPRISES. IN APRIL 2006, HOWEVER, AS PART OF ITS EFFORTS TO APPEAR SERIOUS ON ANTI-MONEY LAUNDERING AND TO PROTECT THE SYRIAN POUND AFTER A SIGNIFICANT 2005 DEVALUATION (REF A), THE SARG PASSED A MONEY CHANGERS LAW TO LICENSE AND REGULATE BLACK MARKET MONEY CHANGERS AND ALTERNATIVE REMITTANCE SYSTEMS. ON APRIL 25, 2007 AFTER MORE THAN A YEAR OF LITTLE DISCERNIBLE PROGRESS, THE FIRST FIVE MONEY EXCHANGE COMPANIES FINALLY RECEIVED PRELIMINARY LICENSES TO LEGALLY EXCHANGE FOREIGN CURRENCY. THESE INCLUDE: HANIFEH MONEY EXCHANGE, INTERNATIONAL MONEY EXCHANGE, GLOBAL MONEY EXCHANGE, DIAR ELECTRONIC SERVICES, AND AL FAWA,ED. IN ACCORDANCE WITH THE LAW, THESE COMPANIES ARE SHAREHOLDING, REQUIRED TO HAVE A MINIMUM CAPITAL OF USD FIVE MILLION) A PORTION OF WHICH IS DEPOSITED WITH THE CENTRAL BANK, AND CANNOT HAVE MORE THAN 25 PERCENT FOREIGN OWNERSHIP. ONE ADDITIONAL COMPANY - THE BITTAR AND PARTNERS COMPANY - WAS ALSO APPROVED FROM A SECOND CATEGORY OF MONEY CHANGERS THAT ONLY NEED USD ONE MILLION IN CAPITAL AND ARE RESTRICTED TO SMALL OVER-THE-COUNTER OPERATIONS.

[1](#)3. (C) CONTACTS WERE PREVIOUSLY SKEPTICAL THAT THE LAW WOULD RESULT IN THE SUCCESSFUL REGULATION OF THE CURRENCY BLACK MARKET (REF B), STATING THAT MONEY CHANGERS WERE SUSPICIOUS

OF GOVERNMENT INTENTIONS AND INCENSED THAT THE LAW IMPOSED A 25 PERCENT TAX ON INCOME WHILE ENABLING A PROFIT MARGIN OF ONLY ONE TO TWO PERCENT. MOREOVER, CONTACTS REPORTED THAT MONEY CHANGERS WERE UNLIKELY TO SEEK LICENSES. CONTRARY TO THIS PREDICTION, HOWEVER, THE FIRST FIVE COMPANIES LICENSED ALREADY REPRESENT MORE THAN 80 PERCENT OF THE BLACK MARKET EXCHANGE VOLUME IN SYRIA, ACCORDING TO SOURCES. FURTHERMORE, ADIB MAYALEH, GOVERNOR OF THE CENTRAL BANK, HAS PUBLICLY STATED THAT MORE THAN 117 APPLICATIONS WERE RECEIVED TO OPEN MONEY EXCHANGE OPERATIONS. MAZEN TABAA, OWNER OF ONE OF THE RECENTLY APPROVED MONEY EXCHANGE OPERATIONS, DIAR ELECTRONIC SERVICES, AND BUSINESS PARTNER WITH PRESIDENT ASAD'S FIRST COUSIN RAMI MAHKLOUF, ASSERTED THAT MOST COMPANIES ARE SEEKING LICENSES DUE TO THE JUSTIFIED FEAR THAT IF THEY DID NOT, THE LICENSED MONEY EXCHANGE COMPANIES WOULD TURN THEM IN TO THE GOVERNMENT.

¶4. (C) WHILE MOST MONEY EXCHANGE OPERATORS MAY NOW SEEK LICENSING, THIS DOES NOT, HOWEVER, SIGNAL AN END TO BLACK MARKET OPERATIONS. MOST CONTACTS BELIEVE THAT SIGNIFICANT INCENTIVES REMAIN FOR MONEY EXCHANGE OPERATORS TO PERFORM "UNOFFICIAL" BLACK MARKET TRANSACTIONS IN ADDITION TO THEIR OFFICIAL DUTIES. THE GOVERNMENT HAS MADE STRIDES IN LIBERALIZING FOREIGN EXCHANGE, INCLUDING ALLOWING IMPORTERS TO FINANCE UP TO 100 PERCENT OF TRADE AS OF JANUARY 1, 2007, BUT CONTACTS SAY THAT ONGOING EXCHANGE RESTRICTIONS, AS WELL AS CORRUPTION IN THE BUSINESS SECTOR, WILL ENCOURAGE THE CONTINUATION OF THE BLACK MARKET.

¶5. (C) THOSE LIKE TABAA, WITH TIES TO REGIME FINANCIERS, AND A CLEAR INTEREST IN STRESSING THE POSITIVE, ASSERT THAT THE SARG HAS BEEN SERIOUS ABOUT IMPLEMENTING ANTI-MONEY LAUNDERING LEGISLATION, COMMENTING THAT THE NEW MONEY EXCHANGE COMPANIES ARE SUBJECT TO MANY OF THE SAME

REGULATIONS TO WHICH BANKS MUST ADHERE, INCLUDING THOSE UNDER SYRIA'S BANK SECRECY LAW, AND ANTI-MONEY LAUNDERING AND TERRORIST FINANCING LEGISLATION. DESPITE TABAA AND OTHER'S POSITIVE SPIN, SYRIA'S MONETARY AND FINANCIAL SECTORS REMAIN LARGELY UNREGULATED. DUE TO A SERIOUS LACK OF HUMAN CAPACITY, TRANSPARENT REGULATIONS, AND REGULATORY MANAGEMENT, THE CENTRAL BANK HAS YET TO DEMONSTRATE THE ABILITY TO EFFECTIVELY MONITOR THE NASCENT PRIVATE BANKING SECTOR. FINANCIAL OVERSIGHT AND LEADERSHIP IS FURTHER DEGRADED BY REGIME IN-FIGHTING AND UNCLEAR LINES OF AUTHORITY BETWEEN THE CENTRAL BANK, THE MINISTRY OF FINANCE, AND THE COMMERCIAL BANK OF SYRIA (REF C). THE INABILITY TO FOLLOW THROUGH WITH EFFECTIVE IMPLEMENTATION OF APPROVED LAWS IS EXEMPLIFIED BY THE FACT THAT THE SARG HAS YET TO DEVELOP A CODE FOR PENALIZING LICENSED OR UNLICENSED MONEY CHANGE OPERATORS THAT CONDUCT ILLEGAL TRANSACTIONS. WISSAM MERHEJ OF DELOITTE AND TOUCHE ECHOED OTHERS WHEN HE SAID THAT AS IN THE PAST, REGIME INSIDERS WILL CONTINUE TO TURN A BLIND EYE TO THESE TRANSACTIONS BECAUSE THEY USE THESE MECHANISMS TO QUIETLY TRANSFER FUNDS ABROAD.

¶6. (C) COMMENT. WHILE CONTACTS AGREE THAT THE LICENSING OF MONEY EXCHANGE COMPANIES IS A MODEST STEP TOWARDS CONTROLLING THE BLACK MARKET, THEY ALSO ASSERT THAT EFFECTIVE REGULATION IS STILL FAR OFF. DUE TO CONTINUED SARG RESTRICTIONS ON FOREIGN CURRENCY EXCHANGE, AS WELL AS A CONTINUATION OF THE UNDER-THE-TABLE TRANSACTIONS THAT ARE FREQUENT IN THE SYRIAN ECONOMY, THE LICENSED COMPANIES WILL LIKELY CONTINUE TO OFFER "UNOFFICIAL" TRANSACTIONS. WHILE IT IS EARLY TO ASSESS THE LONG-TERM AFFECT OF THIS NEW LAW ON THE BLACK MARKET, INDICATORS SUGGEST THAT IN THE NEAR-TERM THE BLACK MARKET WILL CONTINUE TO PLAY A CENTRAL ROLE IN INFLUENCING SYRIA'S MONETARY SYSTEM, AND WILL REMAIN VULNERABLE TO MONEY LAUNDERING AND OTHER NEFARIOUS ACTIVITIES. END COMMENT.
CORBIN